Lib

American Sterilizer Company AMSCO

1968 ANNUAL REPORT

AMERICAN STERILIZER COMPANY

AMSCO 75

Highlights of 1968

	1968	1967	% Change Increase (Decrease)
Net Sales	$54,070,165	$50,773,569	6.5
Income Before Income Taxes	$ 5,749,940	$ 6,111,808	(5.9)
Net Income	$ 2,718,940	$ 3,058,107	(11.1)
Earnings Per Share	$ .88	$ 1.00	(12.0)
Backlog	$37,555,544	$30,537,490	23.0
Capital Expenditures	$ 828,550	$ 1,147,868	(27.8)

AMERICAN STERILIZER COMPANY

CORPORATE OFFICES:

2424 West 23rd Street, Erie, Pennsylvania 16512.

STOCK LISTING:

New York Stock Exchange. Symbol: ASZ.

TRANSFER AGENTS:

Security-Peoples Trust Company,
801 State Street, Erie, Pennsylvania.

Morgan Guaranty Trust Company of New York,
30 West Broadway, New York, New York.

REGISTRARS:

The First National Bank of Erie,
1005 State Street, Erie, Pennsylvania.

First National City Bank,
399 Park Avenue, New York, New York.

The Annual Meeting of Shareholders will be held in Erie, Pennsylvania, on May 7, 1969. Official notice and other information regarding this meeting will be mailed shortly.

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Cover Photo: AMSCO's new Dietary Distribution System uses remote-controlled AMSCARS to assure on-schedule delivery of patients' food trays to every hospital floor.

To Our Shareholders:

Although sales and earnings did not reach anticipated levels, 1968 was nevertheless a year of substantial accomplishment. We are confident that 1969 will see record highs in sales, income and earnings per share.

Consolidated net sales rose to $54.07 million in 1968, as compared with $50.77 million in the previous year. Net after-tax income dipped to $2.72 million, from $3.06 million in 1967.

A number of factors contributed to these results. General operating costs for the year as a whole were geared to a higher volume of shipments than was actually realized, and they included start-up costs of establishing our five new Erie companies and corporate headquarters as self-sufficient entities. It was difficult to maintain an even production rate during the first nine months of the year, due to delays by customers in accepting deliveries, and because of inter-union differences at the Erie plant. The tremendous surge in shipments during the fourth quarter helped to correct the situation, but it was accomplished only with excessive overtime.

The income tax surcharge and the increased costs of labor and materials also contributed to the slackening in earnings.

On the other hand, the year had numerous bright spots:

- The major cost of reorganizing and expanding Erie operations is now behind us, and this investment in the Company's future is already showing exceptional promise.
- The first three-year contract ever negotiated at the Erie plant assures a long period of uninterrupted production.
- The acquisition of Ingram & Bell was a major step in capitalizing on the opportunities for growth in Canada, and marked AMSCO's entry into the growing surgical supply field.
- The momentum started in the fourth quarter of 1968 — as evidenced by the highest shipments and second highest before-tax income ever recorded for a 13-week period — should continue into first quarter 1969 and throughout the year.
- Backlog reached an all-time high of $37.5 million — up 23 per cent from the previous record set the year before.
- Most of all, there is a new spirit of entrepreneurship throughout our management team; they have gained by the past year's experiences and have taken hold for the future.

All these reasons justify our optimism that 1969 — our 75th Anniversary Year — by every measure will be the most successful in our history.

V. F. Lechner

V. F. Lechner
President

February 28, 1969

1968 In Review

SALES AND EARNINGS

AMSCO's sales for 1968 reached a new high, although earnings were lower than those posted in 1967.

Net sales for the year ended December 29, 1968, were $54,070,165, and earnings before taxes were $5,749,940. Net after-tax income was $2,718,940, equal to 88 cents per share based on 3,089,991 average shares outstanding during the year. In comparison, 1967 net sales totaled $50,773,569, and earnings before taxes were $6,111,808. Net after-tax income amounted to $3,058,107, equal to $1.00 per share based on 3,053,314 average shares outstanding during 1967.

All figures are as restated on a pooling of interests basis to reflect the acquisition of Ingram & Bell Ltd., Toronto, in August, 1968, and per-share figures have been adjusted to provide for the 2-for-1 stock split of May 3, 1968.

Among the factors that affected earnings were the higher costs of sales due to less-than-projected shipments; the added startup costs involved in the reorganization and expansion of the Company's Erie operations into a corporate headquarters group and five autonomous product-market growth centers; increased costs for labor and materials; and the federal income tax surcharge which reduced net earnings for the year by approximately seven cents per share.

Sales and earnings are expected to be appreciably higher in 1969, with records for both anticipated. Results of the fourth quarter, 1968, are encouraging, with indications of a continued upward trend; and backlog is at a record high of $37.5 million, up 23 per cent from the previous high of $30.5 million, at the beginning of 1968.

STOCK SPLIT, STOCK INCREASE

At the Annual Meeting, May 1, 1968, Shareholders voted authorization of a 2-for-1 stock split by approving an increase in authorized common stock to 7,500,000 shares with $1.66⅔ par value, from 1,950,000 common shares with $3.33⅓ par value. Shareholders also authorized 500,000 preferred shares having a par value of $1.00, to be issued in series when the Company's acquisition program or other actions require them.

Primary reasons for the split, the increase in common, and the new preferred stock are to establish a broader shareholder group, and to provide a means for expanding the Company's acquisition program.

DIVIDEND INCREASE

Directors of the Company at their meeting following the Annual Meeting declared a 12-cent dividend on each newly split share of common stock, equivalent to a 20 per cent increase over the previous rate. This marked the 12th straight year in which the annual dividend has increased and it continued the uninterrupted record of dividends in every year since 1914.

INGRAM & BELL ACQUIRED

Ingram & Bell Limited, Toronto, a major Canadian surgical supply house and producer of ethical drug products, began operation as a wholly-owned subsidiary in August, 1968. The company was acquired from International Bronze Powders Ltd., Montreal, through an exchange of 175,000 shares of AMSCO common stock for all outstanding Ingram & Bell capital stock.

WASCON INTEREST SOLD

In June, 1968, the Company sold its 60% interest in Wascon Systems, Inc., Hatboro, Pennsylvania.

NEW DIRECTORS

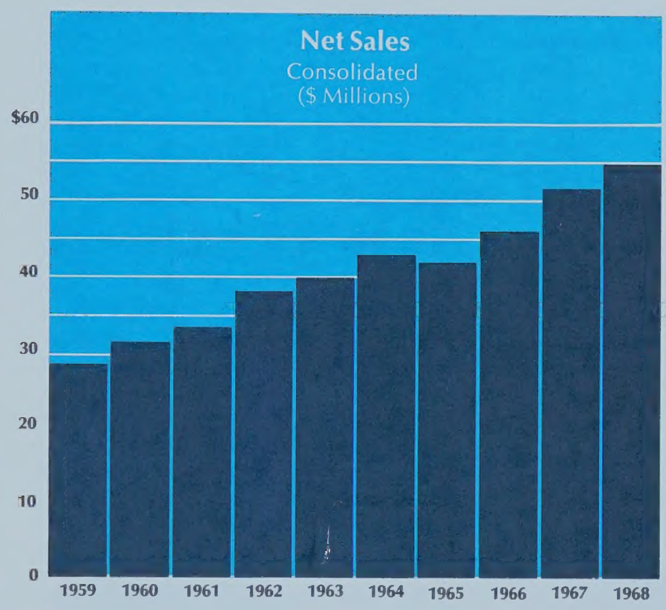
John J. Corson and Leo B. Moore were elected as new members of the Board at the Annual Meeting last May. Dr. Corson is an economic consultant and corporate director with many years of experience as a consultant, educator, business executive and government official. Professor Moore is Professor of Management at Massachusetts Institute of Technology and is also an authority in industrial improvement and management development programs.

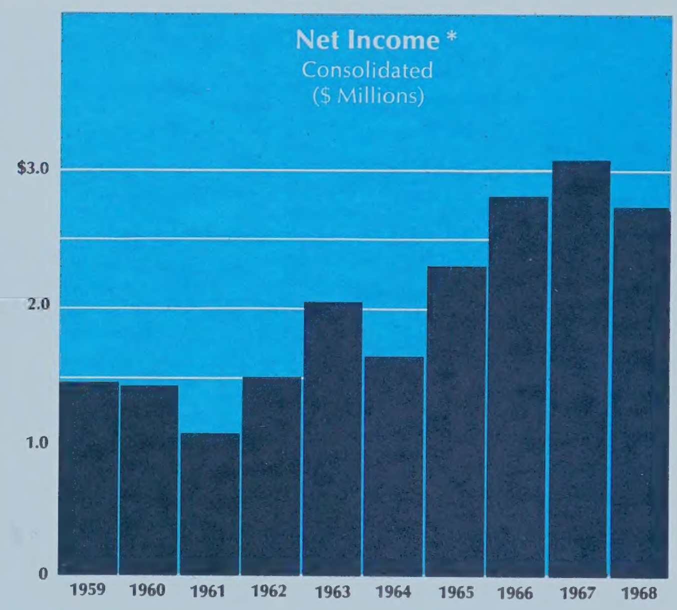
They succeeded R. L. Jewell and Ray E. Brown, who did not stand for re-election. Mr. Jewell is a retired vice president of American Sterilizer and had been a director since 1944. Mr. Brown is Executive Vice President of the Affiliated Hospital Center, Boston.

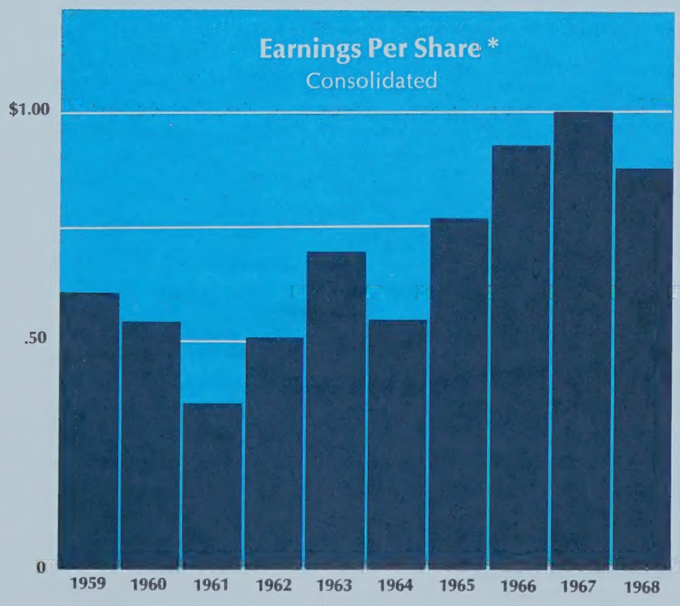
In November, W. Howard Wert was elected to the Board. Mr. Wert is President of Warnock-Hersey International Ltd., Montreal, and serves on the board of several other Canadian corporations. He is also President of International Bronze Powders Ltd., Montreal.

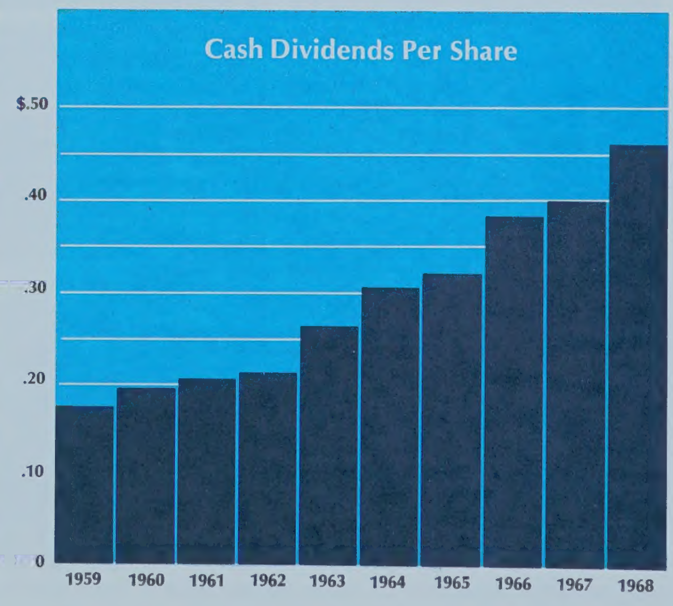
LABOR RELATIONS

AMSCO's tradition of good labor relations was continued as a three-year contract was negotiated with unions representing workers at the Erie plant. Two-year contracts were negotiated at Jamestown and Winston-Salem. Some disruption of operations at the Erie plant occurred due to inter-union disputes, but this situation has been resolved through the decertification of two unions by their members. All Erie factory workers are now represented by either the United Auto Workers or the International Association of Machinists.









*Excludes extraordinary credits

AMSCO Today

CORPORATE GROUP

American Sterilizer Company enters its 75th year as the industry leader in supplying a broad variety of equipment and systems for hospitals and other institutions, research, education, industry and government. In terms of the future, AMSCO views its mission as one that centers on a continuing expansion of its contributions to the general areas of health care, the life sciences, and environmental control. Planning and carrying out this growth mission is the primary function and responsibility of the corporate group.

The past year was devoted mainly to consolidation and definition, during which our officers outlined overall growth strategies, resolved strategies for each of the product-market growth centers, established guidelines covering acquisitions, and set down criteria for capital investment analysis.

During 1969, these aids to decision-making will be put into full practice in stimulating profitable growth, through further expansion of present operating units, and through acquisition of companies whose products or services complement our own.

It is appropriate that the construction of a separate Corporate Headquarters facility in Erie will be a significant event during the Company's 75th Anniversary Year. In one sense, it will stand as a testament to those who have served before; in another, it will be another step in establishing the independence of our operating units, while providing the corporate group with the proper working environment to build for the future.

AMSCO HOSPITAL DIVISION

Charles E. Gallagher
General Manager

All hospitals in the United States with 25 or more beds are users of products manufactured and marketed by the AMSCO Hospital Division. Its extensive lines include sterilizers, surgical tables, surgical lights, washing equipment, sonic energy cleaning systems, nursing service units and a host of related items.

Because of its total capability in almost every area of patient-support service, the division can provide planning to meet complete departmental needs. Its expertise is immediately available through approximately 100 direct field sales technical and managerial personnel, operating from 19 district offices throughout the country.

One reason for the AMSCO Hospital Division's outstanding reputation is its continuing programs of research and development. Fully 84 employees were engaged exclusively in this work during 1968. Among their signal achievements was the completion of germ-free living chambers for patient care, marking the first application of ethylene oxide gas sterilization for such purposes.

Formal customer education programs are another Hospital Division activity, and another reason for its respected position. During 1968, over 800 hospital persons came from all parts of the world to attend week-long seminars at the Erie plant.

AMSCO SYSTEMS COMPANY

James A. Nally
General Manager

AMSCO Systems Company supplies complete automated processing systems to sort, wash and sterilize the tons of materiels a hospital uses daily, and distribution systems to deliver supplies throughout the hospital.

To complement its present lines, the division has recently completed an agreement whereby it will market the extensive Jervis Webb line of materiel handling equipment to the health-care field. This provides the advantage of completeness of handling systems to answer any need in any hospital or nursing home, large or small.

In continually broadening its scope, AMSCO Systems Company will soon be introducing new dietary distribution systems as a revolutionary advance in patient food service.

At least nine major AMSCO Systems projects will have been completed by the end of 1969. Installed in major hospitals throughout the country, they will serve as concrete proof that more and more hospital planners view automation as the one sure way to combat rising costs — and that they look to AMSCO Systems Company as the best source for advanced concepts and proved methods.

AMSCO INDUSTRIAL COMPANY

Donald J. Beecher
General Manager

Research laboratories, educational institutions, medical schools, industrial processors and government biological units are among the diverse groups served by AMSCO Industrial Company.

The division, which recently moved into a new expanded facility in Erie, offers product lines that are as varied as its customers: sterilizers ranging from laboratory units to huge industrial vessels, water processing equipment, animal care equipment, washing equipment of various types, as well as contract sterilization.

During its first full year of operation, AMSCO Industrial perfected its "Balanced Pressure" Gas Sterilizers for processing products in sealed polyethylene packages — the only equipment capable of doing so. It quadrupled the volume from its contract sterilization service. It introduced a new laboratory glassware washer, which soon will be joined by companion models to make a complete line for the important general laboratory field. It also completed the development of a new line of large gas sterilizers, which it will be introducing early in 1969.

CHAMPION DISH WASHING MACHINE COMPANY

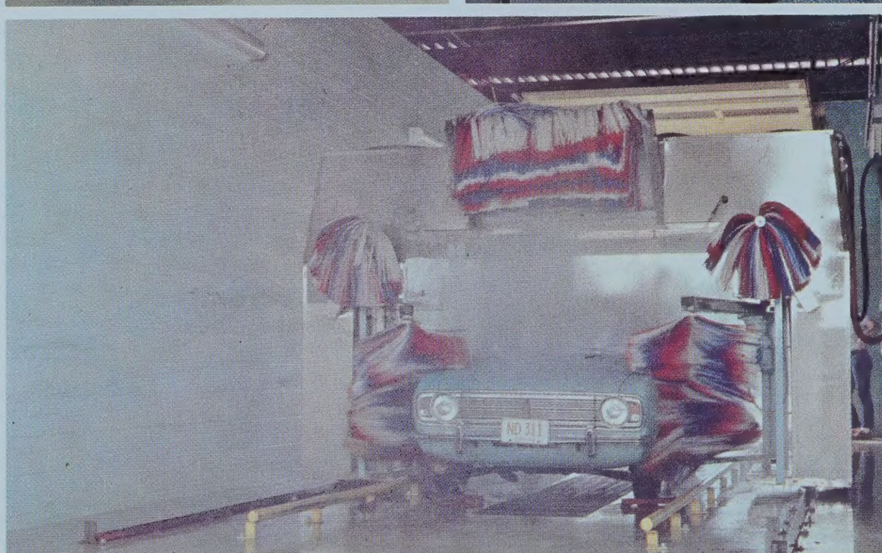
S. Gordon Apgar
President and
General Manager

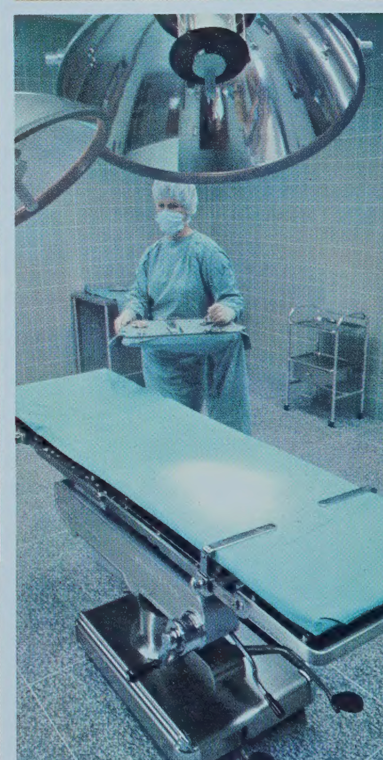
Champion concentrates its efforts on the design and manufacture of spray-type washing systems and has long been a major producer of equipment ranging from commercial dish washers to automatic car washing systems. These systems are marketed to commercial and institutional users through its own sales organization in the United States. They are also manufactured under license agreements and marketed abroad.

Champion has also become an important supplier of specialized washing and sanitizing equipment made to the specifications of and marketed by other American Sterilizer operating units, such as the AMSCO Hospital Division, AMSCO Industrial Company and AMSCO Systems Company.

To provide for its increased production, Champion during 1968 completed an addition to its headquarters plant, bringing the total space for offices and manufacturing to 53,100 square feet.

As one means of augmenting its growth, Champion is planning expansion of its products for industry, where the need is great for systematized washing equipment to replace costly manual operations.





Upper Left: No human control is required as the AMSCAR moves hospital supplies to the predetermined destination point.

Upper Center: Productive partners: Medallion Sterilizer and Automatic Solution Warming Cabinet.

Lower Left: The attendant simply pushes a button, and the Champion Automatic Auto Washing System does the rest.

Upper Right: In a continuous flow, Automated Processing System washes and sterilizes the tons of materiels a hospital uses daily.

Lower Right: Surgical Tables and Surgical Lights are among the extensive lines AMSCO offers for surgical suites.

AMSCO Today

(continued)

G. K. TURNER ASSOCIATES

John G. Hainsworth
President

Turner designs and makes fluorometers, spectrofluorometers, electrophoresis equipment and related analytical instrumentation for laboratory use.

Among the major new products developed in 1968 was a moderately-priced spectrophotometer which employs novel optical and electronic designs to provide accuracy heretofore found only in more expensive types. A new automated chemistry adapter for connecting fluorometers to automatic analysis equipment and an advanced design TLC scanner were also introduced.

Turner's sales in 1968 continued their upward trend, as greater activity in clinical, college teaching, and industrial laboratories helped take up the slack created by cutbacks in government funding for university research centers.

The subsidiary looks forward to continued growth through development of a greater variety of analytical instruments for the expanding laboratory market, and through more widespread use of its products in other fields. Turner instrumentation, for example, is a valuable aid in water pollution control work, while its interface detectors are receiving wide acceptance in the pipeline segment of the petroleum industry.

AMSCO SERVICE COMPANY

Henry Aarnio
General Manager

AMSCO Service Company functions as an autonomous unit to give the best possible assurance to customers in all fields that AMSCO equipment will continue to operate at maximum efficiency. The division coordinates the activities of a network of field service personnel — all direct AMSCO employees — that includes 18 District Service Managers and more than 160 servicemen and Technical Service Engineers throughout the United States.

This impressive service force fulfills formal Preventive Maintenance Agreements with hospitals and other customers whereby AMSCO equipment is inspected and serviced on a regular quarterly programmed basis. The number of PMA's in force approached 5,000 in 1968 — an all-time high — and should go well above this figure in 1969.

This far-reaching organization also provides the assurance of emergency service anywhere within the United States — a vital consideration particularly in the case of hospitals, where equipment malfunction may endanger human life.

AMSCO INTERNATIONAL COMPANY

Donald C. Schaper
General Manager

AMSCO International is responsible for the overseas marketing of American Sterilizer products and services, as well as complementary lines manufactured by other companies. It also has charge of negotiating, administering and servicing manufacturing licenses.

Activities are controlled from Erie through district offices and dispersed territory managers in Brussels, Rome, Singapore, San Juan and Sao Paulo. The marketing group routinely provides support service for 68 exclusive distributors by such means as in-field distributor training programs, seminars for selected customer groups, and comprehensive technical planning on large projects.

Current manufacturing licensees are located in Australia, Brazil, France, New Zealand and the United Kingdom. Three other agreements are in advanced stages of negotiation.

The overall trend in sales continues strong, despite the effect of economic and political factors in some areas. AMSCO International enjoyed a record year in 1968, and anticipates a further increase in 1969.

AMERICAN STERILIZER COMPANY OF CANADA, LTD.

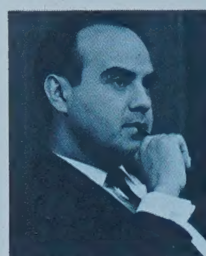
Edward A. Scott
President and
General Manager

AMSCO of Canada manufactures approximately 70% of its products, which include sterilizers, surgical tables and lights, water processing equipment, and washing and sanitizing equipment. Application assistance is provided by its own sales organization, and trouble-free operation of products sold is assured by Preventive Maintenance Agreements fulfilled by its own service group.

Physically, AMSCO of Canada is made up of its headquarters offices and plant in Brampton, Ontario, consisting of 43,000 square feet, plus outside storage facilities and a Montreal office.

AMSCO of Canada sees a number of factors that will contribute to increased growth. These include the addition of other products both for manufacture and distribution, the formation of a New Business Development and Research Department, and the growth potential of markets not directly related to hospital and government markets.

AMSCO DE MEXICO, S.A.



Raúl Gómez -Trejo
General Manager

AMSCO de Mexico has administrative offices and manufacturing plant in Cuidad Naucalpan, a suburb of Mexico City. The plant manufactures approximately 70% of all products sold, with the balance supplied by AMSCO operating units in the States.

Sales of sterilizers, surgical tables, surgical lights and associated equipment improved significantly during 1968. Conversion of AMSCO's Medallion and Vacamatic Sterilizer designs to Mexican standards was another accomplishment during the year. Restructuring of the company's marketing, manufacturing, financial and business development areas also was instrumental in improving overall performance.

Although AMSCO de Mexico's progress is to some extent governed by government expenditures for hospitals and clinics, the addition of dishwashing machines and other commercial kitchen equipment is already providing broad opportunities for increased sales to hotels, restaurants and other privately financed enterprises.

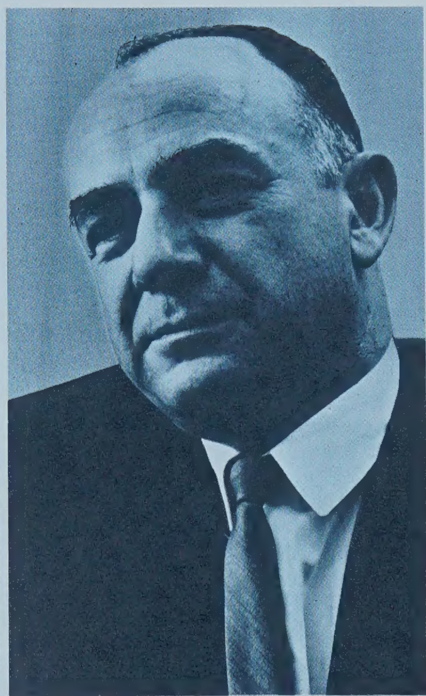
INGRAM & BELL LIMITED

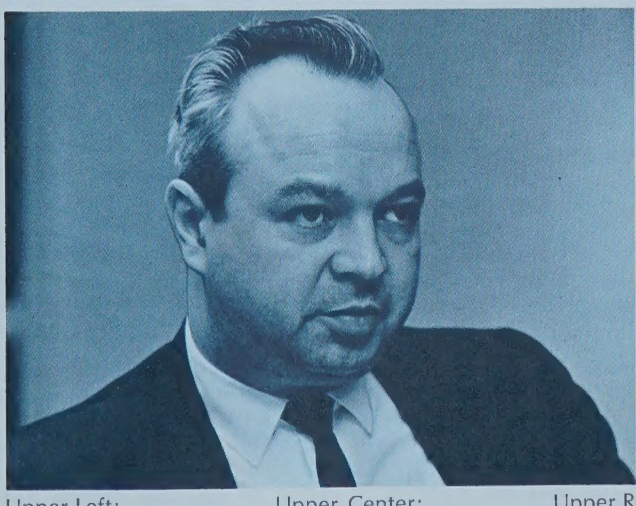
A. W. Steen
President

The hospital supply market in Canada continues to expand rapidly. To take advantage of this, while providing an entree into the surgical supply field, AMSCO in August, 1968, acquired Ingram & Bell Limited. Now operating as an autonomous profit center, Ingram & Bell is a major Canadian distributor of medical, hospital and laboratory supplies. In addition, the company manufactures ethical, pharmaceutical and paramedical products.

Ingram & Bell's strong distribution network includes its headquarters office in Don Mills (Toronto), where its manufacturing plant is also located, and branches in Halifax, Montreal, London, Winnipeg, Calgary and Vancouver. Its 42-man sales force provides excellent coverage throughout Canada in developing business from hospitals, clinical laboratories, physicians, veterinarians, industrial first aid departments, universities and government.

The continuing growth of the Canadian economy and of the markets Ingram & Bell serves are a strong indicator that its sales will continue their steady upward trend.




Upper Left:
B. J. WALKER
Senior Vice President,
Operations

Upper Center:
FRANK DeFAZIO
Senior Vice President,
Secretary and Treasurer

Upper Right:
HENRY E. FISH
Senior Vice President,
Operations

Lower Left:
EDWIN R. BINDSEIL
Vice President,
Corporate Development

Lower Right:
FRANK PLASHA
Vice President,
Employee and
Public Relations

Dialogue with the President

In past months, Mr. Lechner has had many opportunities to discuss the state of AMSCO's business and its corporate goals with a variety of interested people—customers, shareholders, employees, suppliers, members of the financial community, and civic and community leaders. Here, in question-and-answer form, is a composite of these conversations.

Q. Your earnings per share were less in 1968 than the year before. Were there significant reasons for this?

A. Yes, there were a number of reasons. First of all, beginning in mid-1967, we went through an extensive organizational change in which Erie operations were restructured into five autonomous product-market growth centers: AMSCO Systems Company, the AMSCO Hospital Division, AMSCO Industrial Company, AMSCO Service Company and AMSCO International Company. Some of these were very much in the build-up stage during 1968, requiring a considerable investment. We also put money into improving the organization of our subsidiaries. The costs involved occurred largely in 1968, and they were written off as expenses, rather than treated as capital expenditures. We also divested ourselves of our interest in Wascon Systems during the year, and we acquired Ingram & Bell. It was, therefore, a period of change and of considerable investment and expansion. This

we think of as an investment in the future which to a large extent was paid for out of 1968 earnings. Of course, the Federal income tax surcharge also had an impact on earnings — about 7¢ per share. Delayed hospital construction, inter-union problems at our main plant, and higher than anticipated cost of sales all affected our earnings.

Q. What was the reasoning behind the 2-for-1 stock split in 1968 and the increase in the number of common shares?

A. The stock split and increase in authorized common to 7,500,000 were, of course, for the purpose of creating a broader market for our stock. We also wanted to have the means at hand for bringing aboard other companies to permit accelerated growth. This is also the reason for the authorization of 500,000 preferred shares to be issued in series as conditions require.

Q. Along with the stock split, you raised the cash dividend. What is your policy regarding dividends?

A. The responsibility for dividend policy, of course, rests with our Board. The past practice has been to give stockholders a share in AMSCO's prosperity. We have also historically reinvested a substantial portion of earnings to provide for rapid internal and external growth.

Q. Your Company has always occupied an unusually strong position in the hospital capital equipment field. Why did you feel the need to reorganize?

A. Our decision to reorganize came as the result of a number of years of intensive formal study and planning. It became clear that AMSCO, to continue to grow, would have to establish separate organizations to take full advantage of the potential not only in the health care field, but also in such markets as the life sciences, education, research and environmental control — both here and abroad. Today we have strong independent product-market growth centers as a result of our strategic planning. We also saw the definite need for relieving our top management from the burden of line responsibilities to give them time to concentrate on advancing our overall growth mission.

Q. Exactly what will your restructuring do in advancing overall growth?

A. First, it became apparent that the typical pyramid structure did not provide the opportunity for middle managers to show their true talents. In establishing separate companies — or Product-Market Growth Centers, if you will — we were able to place such persons immediately into positions of responsibility. These managers are paid a basic salary, and they are also under a compensation plan directly tied in with their contribution to increased earnings per share. If they run their companies well — if they are, in fact, profit centers — the managers are rewarded accordingly. This obviously contributes to overall corporate growth. And, very importantly, it provides us with a strong pool of experienced executive talent upon which to build for the future.

Q. Does the acquisition of Ingram & Bell indicate that AMSCO is changing its traditional emphasis on capital equipment?

A. If you mean, "Is AMSCO entering heavily into pharmaceutical processing?", the answer quickly is "No." Ingram & Bell's line of ethical drug products accounts for about 10% of its business. The remaining 90% comes from its role as a major Canadian distributor that supplies many of the markets AMSCO has traditionally served. We acquired Ingram & Bell because it is a well-managed going concern in itself, and because it provides us with a strong, already established marketing network in Canada. Like all our other operating units, Ingram & Bell has the independence to take advantage of opportunities for profit wherever they exist. A parallel example is Champion Dish Washing Machine Company, which we acquired because it afforded us the best means for broadening our offerings to the health care and laboratory fields. That Champion also makes automatic car washing systems was incidental in our decision, although we are certainly not going to slight the contribution made by this segment of Champion's business.

Q. What steps is AMSCO taking to reduce its dependence upon sterilizers in the face of the acceptance of disposable products in the hospital?

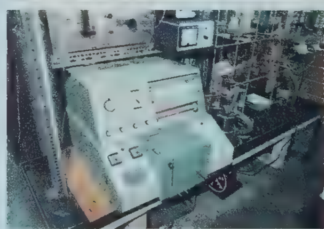
A. We continue to broaden our product base. Our acquisitions and diversification programs have made hospital sterilizers a smaller percentage of our total sales. Paradoxically, we are selling increasing numbers of huge industrial sterilizers to the very people who make disposables. Our business planning has taken us into supplying complete departmental needs, into automated processing and distribution systems for the entire hospital facility, and into such broad areas as environmental control. We are also expanding our sales in such markets as animal care centers, research facilities, pollution control laboratories, blood processing centers.

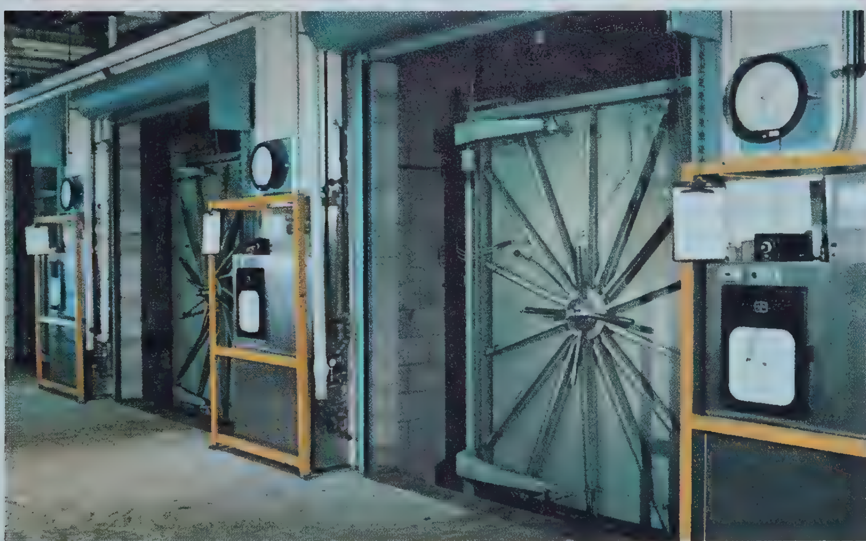
Q. Now that you have reorganized into separate companies and have only a small corporate headquarters staff, won't you run into the problem of failing to maintain control over operations?

A. We believe we are set up to avoid this possibility. Top management is kept abreast of operational activities by such obvious means as regular meetings and monthly reports. Besides this, we hold our "President's Conference" twice a year, at which the heads of our divisions and subsidiaries present a complete picture of what has been accomplished during the preceding period, where they stand currently, and where they intend to go. It is also at these conferences that strategic planning concepts are explained for implementation in the future.

Q. What do you mean by strategic planning?

A. The system we use enables us to pinpoint our approach to management, permitting us to concentrate on the really





Upper Left: Laboratory glassware again gleams brightly after automatic processing in the new SPARKLE Washer.

Lower Left: Manufacturers use huge Industrial Sterilizers to process medical, surgical and pharmaceutical products in volume.

Upper Right: Besides being a major Canadian surgical supply house, Ingram & Bell produces a complete line of ethical drug products.

Center: Precise quantitative analyses are provided by this Turner Spectrofluorometer at a university research center.

Lower Right: Turner instrumentation also is an invaluable aid in water pollution studies.

important mission of working toward continued profitable growth. Strategic planning is both a method and a philosophy based on issues. Every situation is viewed as either an opportunity for the organization, a satisfactory condition, or a threat. After a definition has been made, corporate headquarters provides broad policy guidelines for action by the proper group. If this action group is one of the Product-Market Growth Centers, then it assumes the responsibility for carrying out the operational and growth missions within its clearly defined product-market growth areas. Such plans are continuously checked and refined to make sure we are managing and using all our resources with professional innovative skills. To our mind, only by doing so are we serving the best interests of our various "stakeholders."

Q. Who are the "stakeholders" you refer to?

A. These are the shareholders, customers, employees, suppliers, financial organizations, and members of the communities in which we work. All are important to us — and all expect from us a continuation of the steady progress we have shown in the past.

Q. Of these stakeholder groups, which do you consider the most important?

A. First and foremost, the customers, because the degree in which we please them determines the extent to which we can satisfy all other groups. We serve the ultimate user of our products through our direct sales force and other marketing outlets working with his architect, consultants and contractor. Our customers work in a rapidly changing environment, and they rely of necessity on AMSCO to provide the equipment, systems, and services they must have to surmount economic and technical problems. Over the past 75 years, we believe we have come to understand our technologies, and their application to customer needs better than anyone else — and we are proud of the reputation for integrity we have established. We also provide customer training and education on a sustaining basis to assure maximum value from products provided. As long as we do all this, and do it better than others, then all our stakeholders will benefit.

Q. You have mentioned that AMSCO is a people-oriented company? Exactly what is your philosophy concerning employees?

A. It seems to me that if an employee, whatever his job, can see his place in the total scheme and truly feels that he has carried out his assigned mission, then he has a sense of satisfaction and the company, in turn, has provided the proper working environment and is oriented to his needs. The markets we serve are professional ones, made up of creative people. Our own people, in turn, are creative — and AMSCO must keep an "openness" that invites original thinking, encourages a free exchange of ideas, and rewards achievement. We also offer established means for employees to continue their personal improvement, and this we do through a variety of educational and training programs. In all these ways, we work to motivate the employee, so that he can develop his latent capabilities and show his true potential. People are, after all, any company's greatest asset.

Q. Does AMSCO also have a defined policy with regard to suppliers?

A. The equipment we produce makes use of high-grade materiels and unusual and complicated components. We depend on suppliers who can adhere to our established reliability standards, and who can provide valuable technical assistance. Their prices must also be competitive in terms of values provided. That's particularly important to our business. In our relations with suppliers, we continually stress the highest of ethical standards.

Q. What about your relationship with outside financial organizations?

A. Because of the extremely active and expanding nature of our markets, we maintain a flexible stance in our dealings with financial organizations. We believe that their interests, and our own, are best served by steady growth based on sound practices.

Q. You have spoken of growth a number of times. Do you have a target for growth?

A. Yes. We believe that the fields we are in and the resources we have at our disposal should permit us to double our earnings per share in about five to six years. We forsee this as steady growth but recognize that forcing a level curve is neither possible nor particularly desirable since we are affected by the economy and the need to reinvest more heavily in one year than another.

Q. You mentioned the community as a stakeholder in your success. How do you define the community, and what do you regard as your responsibilities toward it?

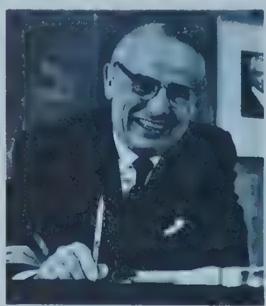
A. In specific terms, we consider the community to be those places in which our plants are located and in which our employees work and live. By treating our employees fairly, we are fulfilling our primary obligation to these locations. We also encourage our employees at all levels to participate in community activities. In the broadest possible sense, I think all of us at AMSCO gain satisfaction from knowing that many of our products are used in areas of common concern.

Q. You have talked about customers and various other stakeholder groups. What about shareholders?

A. That we must provide a fair return on their investment is apparent. If all of us at AMSCO strive to produce to the full limit of our capabilities, then we are serving shareholders — and other stakeholder groups — in the best possible way.

Q. What is your outlook on the general economic picture, and how might it affect AMSCO?

A. In terms of our principal market, the health care field, Hill-Burton plans show a need for new construction and modernization equal to some 337,500 general hospital beds, and it is estimated that construction during 1969 will provide 31,700 beds. In dollars, a recent estimate by the Department of Commerce, Bureau of Census, shows that about $2.3 billion will be expended in 1969 for hospital facilities, nursing homes and public health centers. This is double the level of the early 1960's, and some estimates project an increase of 50% by 1975. Because the pressures on the market are great, and because AMSCO supplies important ways to save, we certainly shall share in this growth. Vietnam remains the big question mark for 1969. Even a partial solution there could mean the availability of more funds for urgent domestic health care needs.



Q. Would you care to make a prediction about AMSCO's sales and earnings for 1969?

A. If we are optimistic, it is because our men are optimistic. Going into 1969 we have already booked orders at our highest level. Our backlog is $37.5 million — $7 million above a year ago. Our chances of shipping in the range of $63 to $68 million are good. Without violent disruptions in the economy, we should have the best earnings-per-share year in our history.

AMERICAN STERILIZER COMPANY AND SUBSIDIARIES

Consolidated Statement of Income and Retained Earnings

For the fiscal years ended December 29, 1968 and December 31, 1967

	1968	1967
Net Sales	$54,070,165	$50,773,569
Costs and Expenses		
Material, wages and other production costs	$33,055,756	$29,953,649
Marketing, administration and general, research and development expenses	14,526,448	14,073,440
Depreciation expense	592,306	809,918
Interest expense	288,203	285,811
Other (income) deductions (net)	(142,488)	(461,057)
Total	$48,320,225	$44,661,761
Income Before Income Taxes	$ 5,749,940	$ 6,111,808
Provision for income taxes	3,031,000	3,053,701
Net Income	$ 2,718,940	$ 3,058,107
Retained Earnings at January 1, 1967, as previously reported		$12,782,282
Retained earnings of pooled company (Note 1)		2,024,067
Retained Earnings at December 31, 1967 and January 1, 1967, as restated	16,730,498	$14,806,349
Cash Dividends Paid	1,384,414	1,133,958
Retained Earnings at December 29, 1968 and December 31, 1967 (Note 2)	$18,065,024	$16,730,498
Net Income Per Share of Common Stock	$.88	$1.00

The accompanying notes are an integral part of this statement.

Consolidated

December 29, 1968 . .

ASSETS

	December 29, 1968	December 31, 1967
Current Assets		
Cash	$ 507,110	$ 1,114,722
Short-term securities, at cost (approximates market)	302,688	1,502,477
Notes and accounts receivable, less allowance for doubtful accounts of $309,120 and $249,494	15,848,988	12,397,673
Inventories, at the lower of cost (first-in, first-out) or market		
Finished goods	4,380,387	4,577,776
Work-in-process	9,292,103	7,010,171
Raw materials	3,098,125	3,182,325
Total inventories	$16,770,615	$14,770,272
Prepaid expenses	406,455	424,803
Total current assets	$33,835,856	$30,209,947
Property, Plant and Equipment (at cost)		
Land	$ 470,333	$ 375,012
Buildings	6,151,182	5,941,297
Machinery and equipment	7,252,711	7,027,116
Total	$13,874,226	$13,343,425
Less accumulated depreciation	6,006,925	5,745,234
Property, plant and equipment (net)	$ 7,867,301	$ 7,598,191
Other Assets		
Noncurrent receivables and investments (at cost), less allowance for doubtful receivables of $111,766 and $106,908	$ 143,598	$ 223,917
Other	157,972	384,188
	$42,004,727	$38,416,243

The accompanying notes are an integral part of this statement.

alance Sheet

. and December 31, 1967

LIABILITIES AND SHAREHOLDERS' INVESTMENT

	December 29, 1968	December 31, 1967
Current Liabilities		
Notes payable	$ 2,510,930	$ 495,093
Current portion of long-term indebtedness	407,063	420,466
Accounts payable	3,565,993	2,799,827
Accrued liabilities	1,301,610	1,155,450
Accrued taxes	1,155,174	1,283,800
Total current liabilities	$ 8,940,770	$ 6,154,636
Other Liabilities		
Long-term indebtedness (Note 2)	$ 3,345,937	$ 4,109,462
Other noncurrent liabilities	207,678	77,892
Total other liabilities	$ 3,553,615	$ 4,187,354
Shareholders' Investment		
Common stock, par value $1.66⅔ Authorized 7,500,000 shares; outstanding, 3,095,206 shares in 1968 and 3,076,312 shares in 1967 (Notes 5 and 6)	$ 5,158,677	$ 5,127,186
Capital in excess of par value of common stock	6,286,641	6,216,569
Retained earnings (Note 2)	18,065,024	16,730,498
Total shareholders' investment	$29,510,342	$28,074,253
	$42,004,727	$38,416,243

AMERICAN STERILIZER COMPANY AND SUBSIDIARIES

Consolidated Statement of Source and Application of Funds

For the fiscal year ended December 29, 1968

SOURCE OF FUNDS	
Net Income	$2,718,940
Add —	
Charges against and credits to, income not involving funds (depreciation, amortization, gains on sale of assets, etc.)	559,440
Funds provided from operations	$3,278,380
Decrease in other assets	306,535
Increase in other noncurrent liabilities	129,786
Sale of common stock under option	101,563
Total funds provided	$3,816,264
APPLICATION OF FUNDS	
Cash dividends paid	$1,384,414
Expenditures for plant and equipment, net	828,550
Reduction in long-term indebtedness	763,525
Total funds applied	$2,976,489
INCREASE IN WORKING CAPITAL	$ 839,775

The accompanying notes are an integral part of this statement.

Consolidated Statement of Capital in Excess of Par Value of Common Stock

For the fiscal years ended December 29, 1968 and December 31, 1967

	1968	1967
Balance, January 1, 1967, as previously reported		$6,192,237
Excess of par value of common stock issued and investment over the par value of capital stock of pooled company (Note 1)		223,156
Balance, December 31, 1967 and January 1, 1967, as restated	$6,216,569	$5,969,081
Add — Excess over par value of proceeds from the exercise of stock options	90,729	247,488
Deduct — Par value of additional common stock issued in connection with a pooled company (Note 6)	(20,657)	
Balance, December 29, 1968 and December 31, 1967	$6,286,641	$6,216,569

The accompanying notes are an integral part of this statement.

Notes to Consolidated Financial Statements

At December 29, 1968

1. PRINCIPLES OF CONSOLIDATION

The consolidated financial statements include the accounts of the Company and all of its subsidiaries.

In August, 1968, the Company issued 175,000 shares of its common stock in exchange for all of the outstanding stock of Ingram & Bell Limited.

This transaction has been accounted for as a pooling of interests. Accordingly, the financial statements for the year ended December 29, 1968, include the accounts of this subsidiary for the entire year and the financial statements for the year ended December 31, 1967 have been restated to include the accounts of this subsidiary.

2. LONG-TERM INDEBTEDNESS

Long-term indebtedness consists of the following:

4⅞% notes, due August 1, 1977, with annual prepayments of $300,000	$2,600,000
Mortgages and other term loans due in installments through 1980	1,153,000
	$3,753,000
Less: Current portion	407,063
	$3,345,937

Certain loan agreements provide, among other things, for restrictions upon maintaining working capital, incurring additional indebtedness, the creation of encumbrances, the disposition of stock of any subsidiary, the sale of a substantial amount of its properties and the payment of dividends.

The Company entered into an additional loan agreement during January, 1969, which enables borrowings on an interim basis up to $5,000,000 through January, 1972. In January, 1972, these loans will be converted to a term loan payable in sixteen equal quarterly installments. In accordance with the terms of this agreement cash dividends are restricted to consolidated net income after December 29, 1968 plus $1,400,000. Accordingly, $16,665,024 of consolidated retained earnings are not available for payment of dividends.

3. PENSION PLANS

The Company and certain of its subsidiaries have pension plans covering substantially all of their employees. The total pension expense was $660,353 in 1967 and $762,816 in 1968, which includes amortization of prior service cost over periods ranging from 10 to 30 years. Unfunded prior service cost under the plans approximates $2,985,000. The Companies' policy is to fund pension cost accrued. The actuarially computed value of vested benefits for certain plans as of December 29, 1968, exceeded the total of the pension fund and balance sheet accruals by approximately $1,491,000.

4. CONTINGENT LIABILITIES

The Internal Revenue Service has proposed adjustments to the parent company's income tax returns for the years 1962, 1963 and 1964. A significant issue relates to the nature of the investment in the European subsidiaries and the subsequent tax-losses incurred upon liquidation. In the opinion of counsel and management the amounts provided on the books of the parent Company for these contingent tax liabilities are considered adequate.

5. COMMON STOCK SPLIT AND PREFERRED STOCK

Effective May 3, 1968, the Company amended its articles of incorporation to increase the number of authorized common shares from 1,950,000 to 7,500,000 and to change the par value from $3.33⅓ to $1.66⅔. Each share of outstanding common stock (par value $3.33⅓) was exchanged for two shares (par value $1.66⅔). This stock split is retroactively shown in the December 31, 1967 balance sheet. This amendment also authorized 500,000 shares of preferred stock with a par value of $1.00.

6. COMMON STOCK OPTIONED AND RESERVED

At December 29, 1968, there were 53,800 shares of the Company's common stock reserved under its Qualified Stock Option Plan. Options covering 22,800 shares are outstanding at year end. During the year 6,500 shares were exercised.

There are 65,606 shares of common stock reserved in connection with the Reorganization Agreement with G. K. Turner Associates, which may become issuable based on future earnings.

Ten Year Comparison

Dollar Amounts in Thousands Per Share Amounts in Dollars	1968	1967	1966	1965	1964	1963	1962	1961	1960	1959
OPERATING DATA										
Net Sales	$54,070	$50,774	$45,364	$41,322	$42,597	$39,631	$37,646	$33,412	$31,485	$27,604
Depreciation	592	810	760	700	773	708	693	634	559	578
Interest Expense	288	286	297	339	403	326	273	146	131	97
Income before Taxes	5,750	6,112	5,280	4,541	3,071	4,242	3,357	2,716	3,114	3,178
Income Taxes	3,031	3,054	2,629	2,249	1,691	2,219	2,172	1,659	1,685	1,743
Income before Extraordinary Items	2,719	3,058	2,651	2,291	1,380	2,023	1,185	1,057	1,429	1,435
Extraordinary Items, Net of Taxes			142		262		306			
Net Income	2,719	3,058	2,793	2,291	1,642	2,023	1,491	1,057	1,429	1,435
Number of Employees	2,424	2,414	2,330	2,117	2,061	2,283	2,141	1,771	1,689	1,715
BALANCE SHEET DATA										
Working Capital	24,895	24,055	22,490	20,402	20,513	19,714	18,603	15,316	14,385	9,318
Net Plant & Equipment	7,867	7,598	7,336	6,826	6,883	6,827	6,679	6,950	4,784	4,120
Long Term Debt	3,346	4,109	4,413	4,443	5,429	5,628	5,805	3,746	1,525	975
Shareholders' Investment	29,510	28,074	25,843	23,889	22,323	21,396	19,995	19,188	18,399	13,007
Return on Shareholders' Investment	9.2%	10.9%	10.8%	9.6%	7.4%	9.5%	7.5%	5.5%	7.8%	11.0%
COMMON STOCK DATA										
Net Income per Share (1)	.88	1.00	.92	.77	.55	.69	.51	.36	.55	.59
Cash Dividends per Share	.46	.40	.38	.32	.30	.26	.21	.20	.18	.16
Book Value per Share	9.53	9.13	8.50	7.94	7.50	7.25	6.83	6.57	6.41	5.36
Shares Outstanding (weighted average)	3,089,991	3,053,314	3,026,462	2,994,552	2,964,034	2,939,674	2,921,780	2,896,252	2,618,038	2,421,836
Shares Outstanding (end of year)	3,095,206	3,076,312	3,040,544	3,009,862	2,975,724	2,950,648	2,927,870	2,918,746	2,870,260	2,428,878
Number of Shareholders	3,676	3,333	3,861	3,635	3,311	3,261	3,289	3,300	2,325	528

(1) Includes extraordinary items amounting to $.05 in 1966, $.09 in 1964 & $.10 in 1962. Weighted average shares used.
All years have been restated for "pooling" of interests.

Auditors' Report

To the Board of Directors and Shareholders
American Sterilizer Company:

We have examined the consolidated balance sheet of AMERICAN STERILIZER COMPANY (a Pennsylvania corporation) and subsidiaries as of December 29, 1968, and the related consolidated statements of income and retained earnings, capital in excess of par value of common stock and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We have previously examined and reported on the financial statements for the preceding year.

In our opinion, the accompanying consolidated balance sheet and consolidated statements of income and retained earnings, capital in excess of par value of common stock and source and application of funds present fairly the financial position of American Sterilizer Company and subsidiaries as of December 29, 1968, and the results of their operations and source and application of funds for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pittsburgh, Pennsylvania
February 10, 1969

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of Canada, Ltd.

A. W. STEEN
President
Ingram & Bell Limited

American Sterilizer Company AMSCO

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Erie, Pennsylvania

AMSCO INTERNATIONAL COMPANY
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AMSCO SERVICE COMPANY
Erie, Pennsylvania

AMSCO SYSTEMS COMPANY
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MACHINE COMPANY
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